

UNITED STATES DEPARTMENT OF AGRICULTURE
Rural Electrification Administration
Washington 25, D. C.

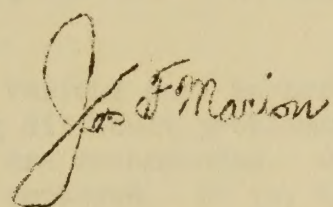
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December 1, 1947

To : All REA Borrowers
From : Jos. F. Marion, Chief, Finance Division
Subject: Procedure for Completion of Inventories Covering
Construction of Sections by Force Account

We are attaching explanations of recommended procedures whereby inventories, which will conform with the requirements of Engineering Memorandum No. 174, can be made of Section Force Account Construction regardless of the method in which cost records have been maintained.

It will be noted that only the regular forms now included in the new Work Order Procedure are required. Therefore, no difficulties should be experienced in conforming to the instructions as outlined.



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PROCEDURE FOR COMPLETION OF INVENTORIESCOVERING CONSTRUCTION OF SECTIONS BY FORCE ACCOUNTEFFECTIVE DECEMBER 1, 1947

We find that cooperatives have individually adopted various methods of maintaining Section Force Account construction costs. Two of these procedures involve submission of Monthly Inventories on Form DS-134, which they clear from the Unclassified Electric Plant in Service, Account 100.6 (or old No. 103.4) and distribute to the various plant accounts. By the use of one method the Section construction cost is intermingled with the Member Service work orders. By the other procedure the Section construction costs only are included in the Inventory, Form DS-134. These inventories are also cleared from the Unclassified Electric Plant in Service Account, and debited to the plant accounts. However, neither procedure provides for a composite inventory of the entire Section and the overhead costs exclusively applicable to the Section remain undistributed.

A number of other methods of handling cost records have been used by which no attempt has been made to complete an inventory of Section construction. So many different individual procedures are involved in that category that no attempt will be made to describe them. If, however, the records have been accurately maintained no great difficulty in completing an inventory should be encountered, except the time involved in compiling all data required and computing the unit cost and plant distribution.

In view of the fact that so many of the various cost record procedures adopted by the cooperatives are creating difficult problems, the following methods for handling complex situations are recommended. Only the forms of the present Work Order Procedure are employed. It is, therefore, believed that they are the most simple and efficient procedures by which composite inventories of Sections constructed by Force Account can be completed and amounts applicable to the Section costs cleared from all Work in Progress accounts.

1. Force Account Section Construction Submitted on Form DS-134 with Member Service Work Orders

In instances where the cooperatives have intermingled the Section construction costs and units on the Monthly Inventory Forms DS-134 with Member Service Work Orders, and made plant distribution of the inventories, the following procedure should be followed to complete an inventory of the entire section:

- a. A tabulation of units shown on all staking sheets covering the Section construction should be made on Form DS-136A. (These forms provide for only 12 staking sheets. If more are involved, it will be necessary to cut off the first two columns of a second Form DS-136A,

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and paste it over the Total Units column on the first form. This will provide for a summary of 24 staking sheets, which should be ample to handle the tabulation of units on any Section.)

- b. The total number of all units on the lines constructed should be transferred from the Total Units installed column of the completed Tabulation of Staking Sheets, Form DS-136A, to the Quantity column on the Assembly Cost and Plant Distribution on the back of Form DS-134.
- c. The Standard Material and Labor and Other Unit costs should be entered in the Unit columns under Standard Cost; the total cost of all units should then be computed and entered in the Total column. After all extensions have been made, a grand total should be made of the amounts in the Unit Totals columns under both Material and Labor and Other.
- d. All Individual Work Order Cost Sheets, Form CO-98, on which the Section Material, Labor and Other costs have been recorded, should be arranged in chronological order, they should then be verified with the entries made on the Inventories of Construction Work Orders, Form DS-134, on which the Section construction costs were included with the Member Service construction costs.
- e. After the Cost Sheets have been verified with the Inventories, the amounts of Material, Labor and Other, including the General Overhead recorded and entered on the Cost Sheets, should be summarized on the front of the Inventory of Construction Work Orders, Form DS-134, on which the Section units have been entered. The totals of all Material, Labor and Other, the actual cost, should be entered in the Total space under the summary of the amounts entered from the Individual Cost Sheets. (If the verification of cost sheets with inventories, on which the cooperative had intermingled the Section and Member Service construction costs, reveals that errors have been made, it will be necessary that the cooperative prepare a corrected inventory, make a journal entry reversing the original incorrect entries to the plant accounts and make the entries as shown by the corrected inventory. It will not be necessary to disturb entries made to plant accounts because of any of the other inventories that have been accurately prepared.)

- f. The totals of Material, Labor and Other on the Summary of Actual Costs should be transferred to the back of the Form DS-134 under the totals of the Standard Cost of all units at the bottom of the form; extend the difference between the Standard Cost and the Actual Cost to the Adjustment column; determine the percentage of the adjustment amount to the Total of the Standard Labor and Other Cost; compute the adjustment to be made to the total cost of all individual units and enter that amount in the Adjustment column to the right of the total Standard Cost of each class of units. From that point, the inventory should be completed in the same manner as the monthly inventories of Member Service Extensions.
- g. After the inventory is completed, it will be necessary that the percentage of the overhead costs, such as engineering, interest on advances of funds applicable to the section, etc., be computed. This is accomplished by dividing the total of all such overhead costs, that were not included in the previous inventories, by the Total Installed Cost shown at the bottom of the Assembly Cost and Plant Distribution, the Section Inventory, Form DS-134.
- h. The amount of overhead costs applicable to the total costs of the individual plant accounts, as shown in both the Capitalized and the To Be Capitalized columns, should be computed. The procedure by which the amount of such overhead should be allocated to the individual plant accounts, is as follows:
- (1) Divide the amount of overhead cost, to be distributed by the total amount shown at the bottom of the page, in the Installed Cost column on the Form DS-134 Inventory, to determine the percentage of Direct Overhead cost.
 - (2) Calculate the amount of Direct Overhead cost to be debited to each plant account by applying the percentage determined, as directed above, to the amount applicable to each of the plant accounts, as shown in the Installed Cost column on the Form DS-134 Inventory.

After those amounts have been determined, a journal entry should be made by which the various plant accounts are debited with the overhead costs applicable to each and the Work in Progress account, in which the overhead costs were originally entered, credited.

- i. Four copies should be made of the completed inventory of the Section Construction. On the front page of the Inventory under the Totals of Materials and Labor and Other, in the space designated "Cash Required," on the lines provided for entry of amounts for Purposes 14 and 15, make the following insertion, "Summary Inventory Only - Not for Advance of Funds or Plant Account Distribution."

As a convenience for future reference, a schedule should be prepared showing the various classes of Direct Overhead items and amounts of each. The percentage of the Direct Overhead to Construction Cost should also be noted on the Schedule. A copy of this schedule should then be securely stapled to each copy of the Inventory. Four copies of the Inventory, together with other closeout documents specified in Engineering Memorandum No. 174, should be handled in accordance with that memorandum.

After the inventory has been approved by the Engineering Division and returned to the cooperative it should be retained as a permanent record of the section construction and unit costs.

2. Force Account Section Construction Submitted on Form DS-134 Separately Each Month

Many cooperatives have submitted inventories of work completed on Section construction each month. These were approved by Engineering and Finance Divisions on the assumption that they represented short extensions which normally are submitted as Member Service construction. These inventories, after approved and returned to the borrower, have been cleared from the Work in Progress account and debited to the various plant accounts according to the distribution on the back of the Form DS-134, Assembly Costs and Plant Distribution.

When Section construction inventories have been prepared in this manner, overhead costs, such as Engineering Fees, Interest, etc., have not, as in Procedure 1, been absorbed. Therefore, the following procedure is recommended whereby a composite inventory of the Section can be completed, which will eliminate the necessity of overhead distribution on a percentage basis, as is necessary where the Section and Member Service construction costs were intermingled.

- a. A journal entry should be made to cancel or reverse the original journal entries for all of the monthly Section Force Account inventories that were previously debited to the plant accounts and cleared from the Work in Progress account. This entry must be supported by a schedule of all the amounts of the costs shown on the monthly inventories.

- b. A tabulation of units shown on all staking sheets covering the Section construction should be made on Form DS-136A. (These forms provide for only 12 staking sheets. If more are involved, it will be necessary to cut off the first two columns of a second Form DS-136A, and paste it over the Total Units column on the first form. This will provide for a summary of 24 staking sheets, which should be ample to handle the tabulation of units on any Section.)
- c. The total number of all units on the lines constructed should be transferred from the Total Units installed column of the completed Tabulation of Staking Sheets, Form DS-136A, to the Quantity column on the Assembly Cost and Plant Distribution on the back of Form DS-134.
- d. The Standard Material and Labor and Other Unit costs should be entered in the Unit columns under Standard Cost; the total cost of all units should then be computed and entered in the Total column. After all extensions have been made, a grand total should be made of the amounts in the Unit Totals columns under both Material and Labor and Other.
- e. All individual Work Order Sheets, Forms CO-98, on which the Section Material, Labor and Other costs have been recorded, should be arranged in chronological order.
- f. The amounts of Material, Labor and Other and general Overhead cost items, which are recorded on the Forms CO-98, should then be scheduled on the front of the Form DS-134, on which the Standard Unit Costs have been computed. After all cost sheets have been listed, the total amount of Overhead items entered directly to the Work in Progress account, such as Engineering Fees, Interest on advances during construction, etc., should be entered in the Labor and Other column on the Form DS-134 under the last amount entered on the summary of cost sheets. For convenience of future reference these overhead items should be broken down so as to show the total amount of each class, engineering, interest, etc. The totals of all Material, Labor and Other column amounts should be entered in the "Total" space under the cost sheet items summary.
- g. The totals of Material, Labor and Other on the Summary of Actual Costs should be transferred to the back of the Form DS-134 under the totals of the Standard Cost of all units at the bottom of the form; extend the difference between the Standard Cost and the Actual Cost to the Adjustment column; determine the percentage of the adjustment amount to the Total of the Standard Labor and Other Cost; compute the adjustment to be made to the total cost of all individual units and enter that amount in the Adjustment column to the right of the total Standard Cost of each class of units. From that point, the inventory should be completed in the same manner as the monthly inventories of Member Service Extensions.

- h. Four copies should be made of the completed inventory of the Section Construction. On the front page of the Inventory, under the Totals of Material and Labor and Other, in the space designated "Cash Required," on lines provided for entry of amounts for Purposes 14 and 15, make the following insertion, "Section E Inventory - Funds Previously Advanced." (Section should be identified by actual letter designation.)

Four copies of the Inventory, together with other closeout documents specified in Engineering Memorandum No. 174, should be handled in accordance with that memorandum.

One copy of the inventory, when approved by the Engineering Division, will be returned to the cooperative. It should be retained as a permanent record of detail unit data and to support the distribution of the Section costs to the various plant accounts.

This method provides a composite inventory of the completed Section, which includes all overhead costs and thus providing an overall average cost of all units. The necessity of computing overhead percentage and adding the extra amount, when the total unit cost is required for retirement purposes or other reference is eliminated.

3. Miscellaneous Methods of Recording Section Force Account Construction Costs

Methods of recording costs under this category are varied. However, the following recommended procedures may be employed to compile data from which the Section Inventory can be completed:

- a. A tabulation of units shown on all staking sheets covering the Section construction should be made on Form DS-136A. (These forms provide for only 12 staking sheets. If more are involved, it will be necessary to cut off the first two columns of a second Form DS-136A, and paste it over the Total Units column on the first form. This will provide for a summary of 24 staking sheets, which should be ample to handle the tabulation of units on any Section.)
- b. The total number of all units on the lines constructed should be transferred from the Total Units installed column of the completed Tabulation of Staking Sheets, Form DS-136A, to the Quantity column on the Assembly Cost and Plant Distribution on the back of Form DS-134.

- c. The Standard Material and Labor and Other Unit costs should be entered in the Unit columns under Standard Cost; the total cost of all units should then be computed and entered in the Total column. After all extensions have been made, a grand total should be made of the amounts in the Unit Totals columns under both Material and Labor and Other.
- d. All individual Work Order Cost Sheets, Form CO-98, or whatever other form on which the cooperatives have maintained records of the section construction costs, should be arranged in chronological or numerical order.
- e. The amounts of Material, Labor and Other, including sums applicable to the Section by monthly distribution of general overhead items, should then be scheduled on the front of the Form DS-134, on which the Standard Unit costs have been computed and totaled. After all cost sheets have been listed, the total amount of other overhead items, such as Engineering Fees, Interest on funds advanced during construction, etc., that normally would not be recorded on the monthly cost sheets or records, should be entered in the Labor and Other column on the Form DS-134, under the last amount entered on the summary of cost sheets. For convenience of future reference these overhead items should be broken down so as to show the total amount of each class, engineering, interest, etc. The totals of Material, Labor and Other column amounts should be entered in the "Total" space under the cost items summary.
- f. The totals of Material, Labor and Other on the Summary of Actual Costs should be transferred to the back of the Form DS-134 under the totals of the Standard Cost of all units at the bottom of the form; extend the difference between the Standard Cost and the Actual Cost to the Adjustment column; determine the percentage of the adjustment amount to the Total of the Standard Labor and Other Cost; compute the adjustment to be made to the total cost of all individual units and enter that amount in the Adjustment column to the right of the total Standard Cost of each class of units. From that point, the inventory should be completed in the same manner as the monthly inventories of Member Service Extensions.
- g. Four copies should be made of the completed inventory of the Section Construction. On the front page of the Inventory, under the Totals of Material and Labor and Other, in the space designated Cash Required, on lines provided for entry of amounts for Purposes 14 and 15, make the following insertion, "Section E Inventory - Funds Previously

Advanced." (Section should be identified by actual letter designation.)

Four copies of the Inventory, together with other closeout documents specified in Engineering Memorandum No. 174, should be handled in accordance with that memorandum.

A copy of the inventory, when approved by the Engineering Division, will be returned to the cooperative. It should be retained as a permanent record of detail unit data and to support the distribution of the Section Costs to the various plant accounts.

A composite inventory of the completed Section, as through instructions for procedure No. 2, also includes all overhead of all units, thus eliminating the necessity of computing overhead percentage and adding the extra amount when the total unit cost is required for retirement or other purposes.